

Message Text

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PAGE 01 OTTAWA 03732 262306Z

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01

INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04 OPIC-06

SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07

CEA-01 /103 W

-----077918 262309Z /23

P 262251Z JUL 78

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC PRIORITY 8198

INFO ALL CONGENS IN CANADA POUCH

UNCLAS OTTAWA 03732

PASS TREASURY FOR SYVRUD, CEA, FRB

E.O. 11652: N/A

TAGS: ECON, EFIN, CA

SUBJECT: ECONOMIC DEVELOPMENTS: WEEK ENDING JULY 21

REF: OTTAWA 3578

1. SUMMARY. BANK OF CANADA RAISED DISCOUNT RATE FROM 8.5 PERCENT TO 9.5 PERCENT IN MOVE TO DEFEND CANADIAN DOLLAR EXCHANGE RATE. RECENT INDICATORS POINT TO CONTINUED MODEST EXPANSION OF DEMAND. SHORT TERM INTEREST RATES WERE UNCHANGED IN WEEK. BOND TRADING SLUGGISH PENDING LARGE GOC DOMESTIC ISSUE. CANADIAN DOLLAR DECLINED ON EXCHANGE MARKETS. END SUMMARY.

2. BANK RATE INCREASE: IN FACE OF NARROWING INTEREST RATE DIFFERENTIALS WITH U.S. AND RESULTANT POSSIBILITY OF INCREASED DOWNWARD PRESSURE IN CANADIAN DOLLAR, BANK OF CANADA INCREASED DISCOUNT RATE FROM 8.5 PERCENT TO 9 PERCENT. WITH GROWTH OF M1 WELL WITHIN OFFICIALLY TARGETTED 7-11 PERCENT RANGE, GOC MONETARY POLICY CONTINUES TO BE GEARED PRIMARILY TO SUPPORTING EXCHANGE RATE. THUS, CONFLICT BETWEEN EXTERNAL AND INTERNAL OBJECTIVES HAS NOT
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PAGE 02 OTTAWA 03732 262306Z

ARISEN (SEE SEPTTEL).

3. ECONOMIC INDICATORS.

--CONSUMER CREDIT (NON-SEASONALLY ADJUSTED) OUTSTANDING WAS CDOLS 26 BILLION IN MAY, AN INCREASE OF 12.9 PERCENT FROM MAY, 1977. GROWTH OF CONSUMER CREDIT HAS ACCELERATED

STEADILY SINCE FEBRUARY. TWELVE MONTH RISES IN FEBRUARY, MARCH AND APRIL WERE 11.4 PERCENT, 11.7 PERCENT AND 12.3 PERCENT RESPECTIVELY. ACCELERATION IN GROWTH OF CONSUMER CREDIT POINTS TO CONTINUED STEADY GROWTH OF CONSUMPTION DESPITE LITTLE GROWTH OF REAL PERSONAL INCOME, AND TO POSSIBLE DECLINE IN SAVINGS RATE IN SECOND QUARTER.

--GROWTH OF GENERAL LOANS CONTINUES TO BE UNIMPRESSIVE. GENERAL LOANS GREW AT 9.5 PERCENT ANNUAL RATE IN JUNE AND AT 10.7 PERCENT ANNUAL RATE SECOND QUARTER - A REAL ANNUAL RATE OF INCREASE OF ABOUT 1.8 PERCENT. UNSECURED PERSONAL LOANS ADVANCED AT ANNUAL RATE OF 18 PERCENT IN SECOND QUARTER, COMPARED WITH INCREASE OF ONLY 9 PERCENT IN BUSINESS LOANS. RAPID GROWTH OF PERSONAL LOANS CONSISTENT WITH ACCELERATION IN OUTSTANDING STOCK OF CONSUMER CREDIT, STEADY GROWTH OF CONSUMPTION SPENDING AND WEAK INVESTMENT TRENDS.

--JOB VACANCIES AVERAGED 46,200 IN SECOND QUARTER, UP 22 PERCENT FROM FIRST QUARTER, BUT DOWN 7 PERCENT FROM SECOND QUARTER 1977. VACANCIES FOR FULLTIME JOBS AVERAGED 40,300, A RISE OF 17 PERCENT FROM FIRST QUARTER. INCREASE IN VACANCY RATE IMPLIES THAT DEMAND FOR LABOR CONTINUES TO BE STRONG, DESPITE SLUGGISH PERFORMANCE OF OUTPUT. (JOB CREATION OVER THE PAST YEAR HAS REMAINED STRONG, WITH EVEN STRONGER INCREASE IN PARTICIPATION RATE UNCLASSIFIED

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PAGE 03 OTTAWA 03732 262306Z

ACCOUNTING FOR HIGH UNEMPLOYMENT.)

--QUEBEC MINIMUM WAGE OF CDOLS 3.27 WILL BE INCREASED TO CDOLS 3.37 IN OCTOBER 1978 AND TO DOLS 3.47 IN APRIL, 1978. PROVINCE IS IN NO DANGER OF RELINQUISHING THE DUBIOUS DISTINCTION OF HAVING HIGHEST MINIMUM WAGE IN NORTH AMERICA. (SEE QUEBEC 254).

4. CAPITAL MARKETS: SHORT TERM INTEREST RATES WERE STABLE IN WEEK. INTEREST RATE ON THREE MONTH TREASURY BILLS WAS 8.36 PERCENT, UNCHANGED FROM PREVIOUS WEEK'S LEVEL. INCREASE IN DISCOUNT RATE LIKELY TO GENERATE RISE IN SHORT TERM RATES AND IN CHARTERED BANKS' PRIME-RATES.

5. BOND TRADING SLUGGISH IN ANTICIPATION OF MAJOR GOC DOMESTIC ISSUE TO BE ANNOUNCED JULY 31. SECURITIES ANALYSTS EXPECT ISSUE OF CDOLS 700-850 MILLION OF WHICH CDOLS 500-600 WOULD GO TO PUBLIC AND REMAINDER TO BANK OF CANADA.

6. GOC HAS RAISED ABOUT CDOLS 1.6 BILLION ON DOMESTIC

CAPITAL MARKETS SINCE APRIL OF ITS ESTIMATED CDOLS 11.5 BILLION FY 1978-79 FINANCING REQUIREMENT. OFFERINGS OF SHORT TERM TREASURY BILLS HAVE GENERATED ABOUT CDOLS 1 BILLION SO FAR AND ARE EXPECTED TO PRODUCE ANOTHER CDOLS 2 BILLION IN COURSE OF FISCAL YEAR. GOC STARTED FISCAL YEAR WITH CASH BALANCE OF CDOLS 4 BILLION WHICH WILL BE PARTIALLY DRAWN DOWN TO MEET FINANCING REQUIREMENTS. PURCHASES OF CANADIAN DOLLARS IN EXCHANGE MARKET HAVE ALSO BEEN AN IMPORTANT SOURCE OF FUNDS. MARKET WILL SOON FOCUS ON 1978 CANADA SAVINGS BOND (CSB) CAMPAIGN. CAMPAIGN WILL BE MAJOR MARKETING EXERCISE AS GOC WILL HAVE TO COVER CDOLS 2.6 BILLION IN CSB'S MATURING AS WELL AS TO RAISE SUBSTANTIAL NEW CASH.

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UNCLASSIFIED

PAGE 04 OTTAWA 03732 262306Z

7. EXCHANGE RATE: EXCHANGE RATE CONTINUED ITS SLOW DECLINE IN WEEK. DOLLAR CLOSED AT 89.98 U.S. CENTS, DOWN FROM PREVIOUS WEEK'S CLOSE OF 89.04 U.S. CENTS.
DUEMLING

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